MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BBF2124 – FINANCIAL MANAGEMENT II

(All sections / Groups)

4 JULY 2023
9.00 a.m -11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This question paper consists of 2 pages with 4 questions only.
2. Answer **ALL** questions.
3. The distribution of the marks for each question is given at the end of each question.
4. Please write all your answers in the Answer Booklet provided. Start each answer on a new page.

QUESTION 1

(a) Briefly explain **THREE (3)** common methods for repurchasing shares.

(12 marks)

(b) AJ owns 650 shares of Megamort Corporation's common stock. On August 26 of the current year, the board of directors of Megamort Corporation declared a quarterly dividend of RM1.50 per share payable to all holders of record on Friday, September 9. They set a payment date on September 30.

(i) What is the amount of the dividend AJ would receive on September 30, given that the dividends would be subject to a 15% income tax? (4 marks)

(ii) If AJ increased her stockholding to 900 shares on September 10, what is the amount of the dividend that she would receive on September 30? (4 marks)

(iii) Based on the above, draw a complete Dividend Payment Timeline showing a Declaration Date, Ex-Dividend Date, Date of Record and Payment Date.

(5 marks)

(Total: 25 marks)

QUESTION 2

Azry is considering investing on a RM1,000-par-value bond with 20 years until maturity and a 12% annual coupon interest rate. The bond has 12 warrants attached for the purchase of common stock. The theoretical value of each warrant is RM15. The interest rate on an equal-risk straight bond is currently 14%.

(a) Calculate the *straight value* of the bond. (5 marks)

(b) Calculate the implied price of *all* warrants attached to the bond. (7.5 marks)

(c) Calculate the implied price of *each* warrant attached to the bond. (7.5 marks)

(d) Based on the theoretical value of the bond and the implied prices. What will you recommend for Azry, whether should he invest on this bond? Explain your answer.

(5 marks)

(Total: 25 marks)

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QUESTION 3

(a) Aryan Enterprises is considering the acquisition of Fiddle Corp. in a stock swap transaction. Currently, Aryan's stock is sold for RM45 per share. Although Fiddle's shares are currently trading at RM30 per share, the firm's asking price is RM60 per share.

(i) If Aryan accepts Fiddle's terms, what is the ratio of exchange? (5 marks)

(ii) If Fiddle has 15,000 shares outstanding, how many new shares must Aryan issue to consummate the transaction? (5 marks)

(iii) If Aryan has 110,000 shares outstanding before the acquisition and earnings for the merged company are estimated to be RM450,000, what is the Earning per Share (EPS) for the merged company? (5 marks)

(b) Backstreet Inc. is considering the acquisition of Duta Corporation at a cash price of RM 5,000,000. Duta Corporation has short-term liabilities of RM 1,500,000. As a result of acquiring Duta Corporation, Backstreet Inc. would also acquire rights to one major patent which would provide an estimated cash inflow of RM 1,800,000 per year for the next eight years. The firm has a cost of capital of 12 percent. Would you recommend cash acquisition? (Assumed short-term liabilities were paid off in the first year).

(10 marks)

(Total: 25 marks)

QUESTION 4

(a) Frank Corporation, a U.S.-based MNC has a foreign subsidiary that earns $1,050,000 before local taxes, with all the after-tax funds to be available to the parent in the form of dividends. The foreign income tax rate is 30 percent, the foreign dividend withholding tax rate is 15 percent, and the firm's U.S. tax rate is 35 percent. What are the funds available to the parent MNC if foreign taxes can be applied as a credit against the MNC's U.S. tax liability? (10 marks)

(b) What is the difference between a Foreign Bond and a Eurobond, and how do they differ from an International Bond? (15 marks)

(Total: 25 marks)

End of Paper